

Congress of the United States

Washington, DC 20515

February 15, 2008

The Honorable Henry M. Paulson, Jr.
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW, Room 3330
Washington, DC 20220

The Honorable Margaret Spellings
Secretary of Education
U.S. Department of Education
400 Maryland Avenue, SW, Room 7W301
Washington, DC 20202

Dear Secretary Paulson and Secretary Spellings:

We write to express our strong concern over a growing problem in the capital markets that could threaten the availability of student loans under the Federal Family Education Loan Program (FFELP). We urge you to work without delay within your organizations and with appropriate federal financial institutions and overseers to address this problem before it significantly decreases access to higher education opportunities for students and their families.

Specifically, many lenders participating in the FFELP engage in securitizations as a strategy to help the financing of student loans. As a result of the ongoing credit crunch, however, many of these lenders are now facing severe liquidity problems in this marketplace. In fact, there have been several reports of lenders leaving the Federal Family Education Loan Program as a result of the thin margins on these loans. Most recently, College Loan Corporation, one of the largest FFELP lenders, announced that it will end its participation in the FFELP.

Although student loan securitizations are safe, high-quality investments, financing education loans through the asset-backed securities market has become uneconomical in the current environment. At the same time, the ongoing credit crunch has caused the asset backed securities market to contract significantly. In the past several days, many student loan lenders have seen auctions for their securities fail, shaking the confidence of investors who value liquidity. Once started, this pattern of failed auctions could continue to affect the entire \$80 billion student loan auction rate securities market.

In a January 28, 2008 *Financial Times* article, former Treasury Secretary Lawrence Summers also recognized the problem and called for either public or private measures to address it. Specifically, he said:

“While attention to date has focused on capital infusions into existing institutions, it would be desirable for capital to be injected into new institutions that do not have the legacy problems of existing ones and can meet the demand for new lending... There are grounds for concern about the adequacy of the flow of lending for student loans, automobiles, consumer credit and non-conforming mortgages. In each of these areas, there may be a need for collective private action or for government measures.”

We, too, are very concerned that this problem could, unless quickly addressed, result in long-term financing disruptions for higher education opportunities. The FFELP presently helps 80% of students obtain their financing. The U.S. Department of Education also projects that

nearly \$60 billion in new FFELP loans will be needed for 6.7 million borrowers in the 2008-09 academic year to help students pursue a post-secondary education. A mere 10% disruption in the FFELP market could therefore interrupt financing for more than 670,000 borrowers.

Lenders in the Federal Family Education Loan Program have provided the private capital that has enabled tens of millions of Americans to obtain an affordable college education. As unrest in our credit markets affects Americans in so many other ways, it is imperative that the FFELP remain strong and the cost of education finance remain as low as possible.

To that end and consistent with all applicable law and regulation, we urge you to engage with each other and with federal financial institutions such as the Federal Financing Bank, the Federal Home Loan Bank System, the Federal Reserve System, and other appropriate entities to encourage them to use their existing authorities, including lender of last resort, in a timely manner to assist in ensuring liquidity and the availability of various financing mechanisms for the purpose of bringing stability to the student loan financing market. Please also keep us informed about your efforts to address these important matters.

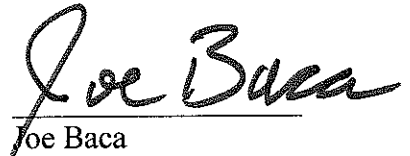
Sincerely,



Paul E. Kanjorski
Member of Congress



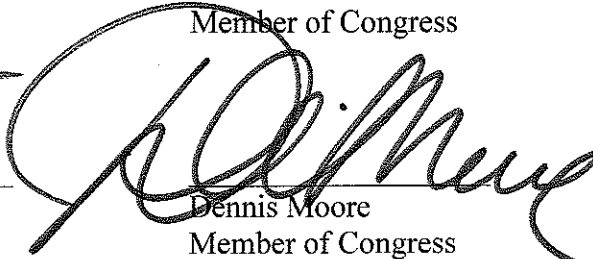
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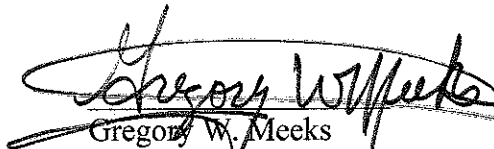
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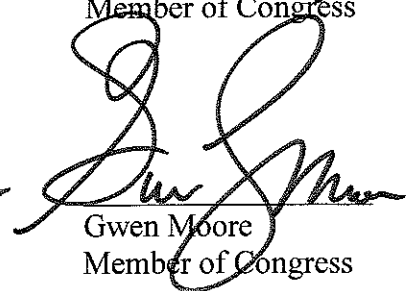
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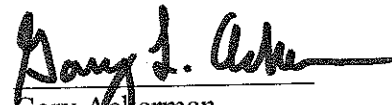
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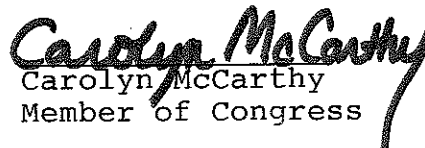

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